Supreme Court, U.S.
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No.

In the Supreme Court

OF THE

United States

BECKMAN INSTRUMENTS, INC. and
SYSTEMS MANAGEMENT SPECIALISTS, INC.,
Petitioners,

VS.

CINCOM SYSTEMS, INC.,
Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

PETITION FOR WRIT OF CERTIORARI

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40 pp

QUESTION PRESENTED

Does the use of licensed computer software in conjunction with an "outsourcing" agreement with a third party where there is no usage by the licensee or the third party in competition with the business of the licensor constitute an infringement for purposes of federal copyright law, 17 U.S.C. § 1, *et. seq.*?

PARTIES TO THE PROCEEDING, CORPORATE PARTIES, PARENT COMPANIES AND SUBSIDIARIES

[Rule 29.6, Rules of the United States Supreme Court]

There are no parent corporations or subsidiaries the disclosure of which would be required under Rule 29.6 of the Rules of the United States Supreme Court. The parties to the proceeding — all corporate parties — are identified on the cover of this Petition.

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28 U.S.C. § 1254(1) 1

PETITION FOR A WRIT OF CERTIORARI

Petitioners Beckman Instruments, Inc. ("Beckman") and Systems Management Specialists, Inc. ("SMS") respectfully pray that a writ of certiorari be issued to review the July 25, 2000 judgment of the United States Court of Appeals for the Ninth Circuit in this case. The Court of Appeals below cited precedent whose status is now questionable to forbid, under the Copyright Act, the non-competitive usage of licensed computer programs pursuant to a standard "outsourcing" agreement for the maintenance of a corporation's software computer systems. Because 17 U.S.C. § 117(c), a 1998 amendment to the Copyright Act, expressly permits making copies of software programs for machine maintenance or repair, the assumptions underlying the Court of Appeal's decision and the precedent it relied on are problematic, at best.

OPINIONS BELOW

The order of the District Court (App., 24a) and the relevant opinion (App., 3a) and order denying rehearing (App., 1a) of the United States Court of Appeals for the Ninth Circuit (App., 24a) are all unreported.

JURISDICTION

The United States Court of Appeals for the Ninth Circuit entered its opinion on October 18, 2000. Petitioners' Petition for Rehearing and Suggestion for Hearing *En Banc* was denied on September 18, 2000. (App. 1a) The jurisdiction of the United States Supreme Court is invoked pursuant to 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

Title 17, section 106 of the United States Code provides, in relevant part: "Subject to sections 107 through 121, the

owner of a copyright under this title has the exclusive rights to do and to authorize any of the following: (1) to reproduce the copyrighted work in copies or phonorecords; (2) to prepare derivative works based upon the copyrighted work; (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease or lending . . ." 17 U.S.C. § 106, sub.(1)-(3).

Title 17, section 117 of the United States Code provides, in relevant part, "(a) Making of Additional Copy of Adaptation by Owner of Copy. — Notwithstanding the provisions of section 106, it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided: (1) that such a new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner . . . . (c) Machine Maintenance or Repair — Notwithstanding the provisions of section 106, it is not an infringement for the owner or lessee of a machine to make or authorize the making of a copy of a computer program if such copy is made solely by virtue of the activation of a machine that lawfully contains an authorized copy of the computer program, for purposes only of maintenance or repair of that machine, if — (1) such new copy is used in no other manner and is destroyed immediately after the maintenance or repair is completed; and (2) with respect to any computer program or part thereof that is not necessary for that machine to be activated, such program or part thereof is not accessed or used other than to make such new copy by virtue of the activation of the machine. (d) Definitions. — For purposes of this section — (1) the "maintenance" of a machine in order to make it work in accordance with its original specifications and any changes to those specifications authorized for that machine; and (2) the "repair" of a machine is the restoring of the

machine to the state of working in accordance with its original specifications and any changes to those specifications authorized for that machine.

STATEMENT OF THE CASE

Cincom Systems, Inc. ("Cincom") is a licensor, and Beckman is a licensee, of a computer software system. The system was licensed to, and used by, Beckman solely for its own operations and not to assist the operations of any other entity.

While the licensing agreement was in force Beckman entered into an "outsourcing" agreement with SMS under which certain computer related services previously performed by Beckman's own employees for the benefit of Beckman would henceforth be performed by SMS personnel. The "outsourcing" agreement did not, however, affect the nature of the usage of the Cincom software and it did not place SMS (or Beckman) in a competitive relationship with Cincom.

Cincom sued Beckman and SMS for copyright infringement. The District Court granted judgment in favor of Beckman and SMS; Cincom appealed; and the United States Court of Appeals for the Ninth Circuit, by a two to one majority, reversed the judgment of the District Court.

The majority determined that in order for Beckman and SMS to prevail, the licensing agreement between Cincom and Beckman would have had to authorize Beckman to permit SMS to use the Cincom software in conjunction with the "outsourcing." The majority, citing *MAI System Corp. v. Peak Computers*, 991 F.2d 511 (9th Cir. 1993), concluded that the licensing agreement did *not* authorize Beckman to permit anyone other than itself to use the Cincom software — even on Beckman's own behalf. Thus, the

majority of the court concluded that Cincom, not Beckman and SMS, was entitled to summary judgment.

Federal jurisdiction in the court of first instance was based on 17 U.S.C. § 106.

REASONS FOR GRANTING CERTIORARI

I.

THE INSTANT APPEAL HAS BEEN INCORRECTLY DECIDED

The majority of the panel of the Court of Appeals (consisting of Thompson, Circuit Judge and Restani, Court of International Trade Judge) rendered an opinion holding that the District Court erred in failing to grant summary judgment to Cincom since SMS had no right to copy the software, even for the benefit of the licensee, Beckman; in that regard it cited to and relied upon *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993).

As the dissent (Hug, Circuit Judge) explained, however, *MAI Systems Corp. v. Peak Computer Inc., supra*, was distinguishable from the case at bar with regard to the existence of "a genuine issue of material fact as to whether Beckman and SMS made fair use of Cincom's software." Under the terms of the Cincom licensing agreement "Beckman was clearly entitled to use the software while servicing its computers"; "Beckman engaged SMS to service its computer"; "[t]here is no indication that SMS's copying or utilizing Cincom's software was other than to accomplish Beckman's use of the software to service its computers"; [t]here is no indication that SMS was in any way in competition with Cincom when it serviced Beckman's computers, nor is there any evidence that SMS had or was intending to use Cincom's software in connection with servicing any other organization's computers"; and "[t]he evidence produced at this stage is that SMS's copying was

done solely in furtherance of servicing Beckman's computers, a use which Beckman was entitled to make of the software."

By contrast, the dissent explained, in *MAI Systems Corp. v. Peak Computer, Inc., supra,* "Peak Computer was using MAI's software to service computers of customers in competition with MAI, who itself was seeking to service various customers' computers." Moreover, "unlike the software in the instant case which is used primarily to enter and track the sale of Beckman's products, the software in MAI was designed to run operating systems and was integral to the technical servicing of the computers." (App. at 14a-15a)

In fact, *MAI Systems Corp. v. Peak Computer, Inc., supra,* is no longer "good law." It has been legislatively overridden by an amendment to the Copyright Act, 17 U.S.C. § 117(c), which expressly permits the making of copies of computer programs for purposes of machine maintenance or repair. To quote § 117(c) verbatim:

> "(c) **Machine maintenance or repair.** — Notwithstanding the provisions of section 106, it is not an infringement for the owner or lessee of a machine to make or authorize the making of a copy of a computer program if such copy is made solely by virtue of the activation of a machine that lawfully contains an authorized copy of the computer program, for purposes only of maintenance or repair of that machine, if —
>
> (1) such new copy is used in no other manner and is destroyed immediately after the maintenance or repair is completed; and
>
> (2) with respect to any computer program or part thereof that is not necessary for that machine to be activated, such program or part thereof is not accessed or used other than to make such new copy by virtue of the activation of the machine."

While § 117(c) does not deal with the precise situation presented by the case at bar, its enactment strongly suggests an intention on the part of Congress to permit non-competitive usage of licensed computer programs of the type here presented.

In light of the foregoing, it is apparent that the decision of the Court of Appeals in favor of Cincom and against Beckman and SMS is erroneous and should be set aside.

II.

A GRANT OF CERTIORARI IS NECESSARY TO ASSURE UNIFORMITY OF DECISION WITH REGARD TO AN EXTREMELY IMPORTANT LEGAL ISSUE

The issue presented by the instant appeal — whether the use of licensed computer software in conjunction with an "outsourcing" agreement on the part of the licensee constitutes copyright infringement — is one of extreme importance.

Licensing agreements for computer software are, of course, widely utilized in the commerce of industrial nations; and it is often to the economic advantage of a licensee to use third party contract labor to operate and service its computer systems. If, however, the interpretation of the applicable law advanced by the majority opinion is allowed to stand, it will, obviously, have a strongly chilling effect upon the ability of domestic licensees to operate their businesses in a competitive world economy. Hence a definitive resolution of the issue is clearly required.

III.

CONCLUSION

The petition for writ of certiorari should be granted.

December 15, 2000

Respectfully submitted,
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UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

FILED
September 18, 2000
Cathy A. Catterson, Clerk
U.S. Court of Appeals

BECKMAN INSTRUMENTS, INC.,
a Delaware Corporation;
SYSTEMS MANAGEMENT SPECIALISTS, INC.,
a Delaware Corporation,

Plaintiffs-counter-defendants — Appellees,

v.

CINCOM SYSTEMS, INC.,
an Ohio Corporation,

Defendant-counter-plaintiff — Appellant.

No. 99-55111
DC# CV-97-08143-R

BECKMAN INSTRUMENTS, INC.,
a Delaware Corporation;
SYSTEMS MANAGEMENT SPECIALISTS, INC.,
a Delaware Corporation,

Plaintiffs-counter-defendants-Appellees,

v.

CINCOM SYSTEMS, INC.,
an Ohio Corporation,

Defendant-counter-plaintiff-Appellant.

No. 99-55453
DC# CV-97-08143-R

ORDER

Before: HUG, Chief Judge, THOMPSON, Circuit Judge, and RESTANI, Court of International Trade Judge.[1]

Judges Thompson and Restani voted to deny the petition for rehearing and recommended denial of the petition for rehearing en banc. Chief Judge Hug voted to grant both petitions. The full court was advised of the petition for rehearing en banc, and no judge of the court requested a vote on that petition. Fed.R. App.P. 35(b).

The petitions for rehearing and rehearing en banc are denied.

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[1] Honorable Jane A. Restani, Judge, United States Court of International Trade, sitting by designation.

NOT FOR PUBLICATION

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

FILED
July 25, 2000
Cathy A. Catterson, Clerk
U.S. Court of Appeals

BECKMAN INSTRUMENTS, INC.,
a Delaware Corporation;
SYSTEMS MANAGEMENT SPECIALISTS, INC.,
a Delaware Corporation,

Plaintiffs-counter-defendants — Appellees,

v.

CINCOM SYSTEMS, INC.,
an Ohio Corporation,

Defendant-counter-plaintiff — Appellant.

No. 99-55111
D.C. CV-97-08143-R

BECKMAN INSTRUMENTS, INC.,
a Delaware Corporation;
SYSTEMS MANAGEMENT SPECIALISTS, INC.,
a Delaware Corporation,

Plaintiffs-counter-defendants — Appellees,

v.

CINCOM SYSTEMS, INC.,
an Ohio Corporation,

Defendant-counter-plaintiff — Appellant

No. 99-55453
D.C. CV-97-08143-R

MEMORANDUM[1]

Appeal from the United States District Court
for the Central District of California
Manuel L. Real, District Judge, Presiding

Argued and Submitted April 6, 2000
Pasadena, California

Before: HUG, Chief Judge, THOMPSON, Circuit Judge, and RESTANI, Court of International Trade Judge.[2]

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[1]This disposition is not appropriate for publication and may not be cited to or by the courts of this circuit except as may be provided by 9th Cir. R. 36-3.

[2]Honorable Jane A. Restani, Judge, United States Court of International Trade, sitting by designation.

Cincom Systems ("Cincom") appeals the district court's judgment in favor of Beckman Instruments ("Beckman") and Systems Management Specialists ("SMS") (collectively "the appellees"). Cincom contends the district court erred when it granted the appellees judgment as a matter of law and denied Cincom's motions for summary judgment.[3] We have jurisdiction pursuant to 28 U.S.C. § 1291, and we reverse.

I.

The parties agree that the central question on appeal is whether the district court properly construed the license agreement between Cincom and Beckman ("the Licence Agreement") as authorizing Beckman to outsource certain technical support work to SMS, an issue of law that we review de novo. *See Tierney v. Kupers,* 128 F.3d 1310, 1311 (9th Cir. 1997).

Cincom argues that our decision in the interlocutory appeal *("Beckman I")* established conclusively that the License Agreement did not authorize SMS's activities. We disagree. "As a general rule, decisions on preliminary injunctions do not constitute law of the case and 'parties are free to litigate the merits.' " *Golden State Trans. Corp. v. City of Los Angeles,* 754 F.2d 830, 832 n.3 (9th Cir. 1985) (quoting *City of Anaheim v. Duncan,* 658 F.2d 1326, 1328 n.2 (9th Cir. 1981)), *rev'd on other grounds,* 475 U.S. 608 (1986)). Here, the appellees offered new evidence to the district court that had not been presented in *Beckman I.* The law of the case doctrine does not apply. *See*

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[3]Cincom also contends the district court erred when it denied Cincom's motions in limine, refused to enter a preliminary injunction against the appellees after we directed the district court to do so, and denied Cincom's motion for reconsideration. Because we reverse on other grounds, we need not reach these other issues.

City of Anaheim, 658 F.2d at 1328 n.2 ("The parties presented additional, albeit somewhat cumulative, evidence on their motion for summary judgment. They are entitled to a hearing on the merits.").

We nonetheless agree with Cincom that the district court erred when it concluded the Licence Agreement authorized SMS to copy and use Cincom's software. As Cincom points out, the Licence Agreement only authorized *Beckman's* use of the software, a right that the Licence Agreement provided was "non-transferrable." The Licence Agreement explicitly prohibited Beckman from "selling, giving or leasing" Cincom's software to anyone without Cincom's express written approval. Notwithstanding this language, the appellees contend Beckman was entitled to outsource to SMS as part of its right to "use" the software. They argue that Beckman was authorized to "use" the software in any fashion not prohibited by the Licence Agreement, including having SMS copy the software on Beckman's behalf.[4]

We have rejected the argument that license agreements permit that which they do not prohibit. *See S.O.S. Inc. v. Payday, Inc.*, 886 F.2d 1081, 1088 (9th Cir. 1989) ("The district court applied the California rule that the contract should be interpreted against the drafter, thereby deeming S.O.S. to have granted to Payday any right which it did not expressly retain. This result is contrary to federal copyright law: copyright licenses are assumed to prohibit any use not authorized.") (citations omitted). Moreover, although Beckman was entitled to "use" the software, that did not give it the right to authorize others to copy the software, even on its behalf. *See Mai Systems Corp. v. Peak Computer Inc.*, 991 F.2d 511, 517 (9th Cir. 1993). The Licence

[4]Similarly, the appellees contend that the contract should be construed against Cincom because Cincom drafted it. We have previously rejected this argument. *See S.O.S. Inc. v. Payday, Inc.*, 886 F.2d 1081, 1088 (9th Cir. 1989).

Agreement not only regulated *how* the software could be used, it also specified *who* could use it.

The appellees argue that the Licence Agreement was only intended as a means to ensure the confidentiality of the software. Thus, they contend, the License Agreement authorized any activity, so long as it did not affect the confidentiality of Cincom's software. We reject this argument. The License Agreement clearly covers both how and by whom the software may be used.

We also reject the appellees's argument that the License Agreement should be construed as authorizing SMS's activities because, in a completely separate transaction with another licensee, Allergen, Cincom negotiated a supplemental agreement to cover outsourcing. The appellees argue that this supplemental contract shows that the License Agreement contemplated outsourcing. This argument lacks merit. The fact that Cincom and Allergen deemed it necessary to enter into an additional agreement to cover outsourcing indicates that the Licence Agreement did not authorize outsourcing in the first place.

In sum, the Licence Agreement only authorized Beckman's use of the software, not SMS's. Accordingly, Cincom has a viable claim that SMS's outsourcing activities constituted, among other things, copyright infringement. It properly presented a motion for summary judgment on that and other related claims.

II.

The district court denied Cincom's motion for summary judgment on its claims for (1) copyright infringement; (2) contributory copyright infringement; (3) breach of contract; (4) inducing breach of contract; (5) misappropriation of trade secrets; and unfair competition. We review de novo a denial of a motion for summary judgment. *See Robi*

v. Reed, 173 F.3d 736, 739 (9th Cir.), *cert. denied*, ____U.S.____, 120 S. Ct. 375 (1999). We must determine, viewing the evidence in the light most favorable to the nonmoving party, whether there are any genuine issues of material fact and whether the district court correctly applied the relevant substantive law. *See id.*

A.

To establish copyright infringement, a plaintiff must show ownership of the copyright and copying of protected expression beyond the scope of a license. *See Mai*, 991 F.2d at 517. Contributory infringement is established by showing that a defendant had knowledge of the infringing activity, and induced, caused or materially contributed to the infringing conduct of another. *See Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (9th Cir. 1971).

Cincom contends the appellants have infringed and continue to infringe its copyrights in a number of ways. It asserts, and it is uncontroverted, that SMS made copies of the software when it "opened" and "closed" Cincom's database system, used the software on Beckman's behalf, and made back-up copies of Beckman's files, which contain the software. Cincom's motion also established that Beckman made an unauthorized distribution of Cincom's software when it sold SMS a computer disk drive that contained Cincom's software. Finally, it is uncontroverted that SMS ran Cincom software on a second hard disk and used the software in disk defragmentation operations.

The district court determined that all of these activities were authorized by the License Agreement. As we have explained, however, there were not. There is no dispute these activities occurred. They infringed Cincom's copyrights, and thus we reverse the district court's denial of

Cincom's motion for summary judgment on its copyright infringement claim.[5]

B.

Cincom next contends the district court erred when it denied Cincom's motion for summary judgment on its breach of contract claim. We agree. The Licence Agreement provided that it would be "construed and enforced according to the laws of the State of Ohio." Under Ohio law, a plaintiff may establish a breach of contract claim by showing: (1) the existence of a binding contract; (2) that the plaintiff performed its contractual obligations; (3) that the defendant failed to fulfill contractual obligations without legal excuse; and (4) that the plaintiff suffered damages as a result. *See Garofalo v. Chicago Title Ins. Co.*, 661 N.E.2d 218, 226 (Ohio 1995). Here, the Licence Agreement explicitly prohibited the sale, gift, or lease of the software. Under its service agreement with SMS, Beckman transferred Cincom's software to SMS. Beckman breached the contract. Accordingly, we reverse the district court's denial of summary judgment on Cincom's breach of contract claim.

C.

The district court did not err, however, in denying Cincom's motion for summary judgment on its claim against SMS for inducing a breach of contract. To prevail on a claim for inducing a breach of contract, a plaintiff must show (1) the existence of a valid contract, (2) the defendant's knowledge of the contract and intent to cause the breach; (3) breach of the contract by the contracting party; (4) which breach was caused by the defendant's wrongful

[5]There was no infringement, however, by SMS running the software onto a different central processing unit. Such action was contemplated by the Licence Agreement.

and unjustified conduct; and (5) damages suffered as a result. *See Charles C. Chapman Bldg. Co. v. Calif. Mart.*, 2 Cal.App.3d 846, 853 (1969). Although Cincom showed that SMS was aware of the Licence Agreement and knew that it did not provide for unapproved access to the software, Cincom has not shown that SMS intended for Cincom to breach the Licence Agreement. *See Seaman's Direct Buying Service, Inc. v. Standard Oil Co. of California*, 36 Cal.3d 752, 766 (1984) (citing *Abrams & Fox v. Briney*, 39 Cal.App.3d 604, 608 (1974)), *rev'd on other grounds, Freeman & Mills, Inc. v. Belcher Oil Co.*, 11 Cal. 4th 85 (1995). Instead, Cincom only established that SMS intended to cause the acts that constituted the breach. Accordingly, we affirm the district court's denial of summary judgment on Cincom's claim for inducing a breach of the contract.

D.

Cincom also argues that the district court erred by denying summary judgment on its claims for misappropriation of trade secrets and unfair competition. Cincom contends it established that Beckman misappropriated Cincom's trade secrets in its software and manuals because Beckman (1) allowed SMS access to Cincom software; (2) sold SMS the hard disk containing the Cincom software; and (3) allowed an SMS employee to retain Cincom's manuals containing trade secret information. Cincom further contends that these acts of misappropriation also constituted unfair competition under Cal. Bus. & Prof. Code § 17200.

We conclude Cincom was not entitled to summary judgment on these claims. We have repeatedly held that although computer software *can* qualify for trade secret protection, *see, e.g., S.O.S. Inc. v. Payday, Inc.*, 886 F.2d 1081, 1089-90 (9th Cir. 1989), a plaintiff must specifically identify the trade secrets and show that they were, in fact,

trade secrets. *See, e.g., Mai Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 522 (9th Cir. 1993). Cincom only established that the software was subject to a confidentiality agreement. It did not show that the software or the manuals were trade secrets. Although Cincom may be able to prevail on these claims at trial, Cincom has yet to establish that the software or the manuals held any trade secrets. Accordingly, we affirm the district court's denial of Cincom's motion for summary judgment with respect to its trade secrets and unfair competition claims.

III.

Cincom finally asks that upon remand this case be reassigned to a different district court judge. Under 28 U.S.C. § 2106, we will remand to a different district court judge if there is "a demonstration of personal bias or in 'unusual circumstances.'" *Smith v. Mulvaney*, 827 F.2d 558, 562 (9th Cir. 1987). In determining whether unusual circumstances exist, we consider:

> (1) whether the original judge would reasonably be expected upon remand to have substantial difficulty in putting out of his or her mind previously expressed views or findings determined to be erroneous or based on evidence that must be rejected; (2) whether reassignment is advisable to preserve the appearance of justice; and (3) whether reassignment would entail waste and duplication out of proportion to any gain in preserving the appearance of fairness.

Id. The first two factors are considered to be of equal importance and a finding of either one will support a remand to a different judge. *See id.*

We have carefully reviewed the record and conclude this case should be reassigned to a different district court judge. After we reversed the district court and issued our disposi-

tion in *Beckman I*, the district court reaffirmed its ruling, without even attempting to distinguish our memorandum disposition. The district court's ruling and our disposition in *Beckman I*, however, rested upon the same legal issue: the proper interpretation of the Licence Agreement. That the district court failed to even acknowledge our disposition in *Beckman I*, suggests the court preferred to ignore it.

Then there is the matter of the district court's treatment of Cincom's request to file motions in limine. The district court denied those motions before it had reviewed them. After being informed that the motions had not been filed, the district court stated that it had made up its mind. The record also reflects incidents of animosity expressed by the district judge towards Cincom's counsel.

In light of these circumstances, we conclude the district court would have substantial difficulty in putting out of its mind its previously-expressed views. Reassignment to a different district judge is necessary.

CONCLUSION

We VACATE the district court's entry of judgment in favor of the appellees and its award of attorneys fees. We REVERSE the district court's denial of Cincom's motion for summary judgment on Cincom's claims for copyright infringement, inducement of infringement, and breach of contract, and direct the district court to enter summary judgment in favor of Cincom on these claims. We AFFIRM the district court's denial of summary judgment on Cincom's claims for misappropriation of trade secrets, unfair competition, and inducing breach of contract.

We REMAND this case for assignment to a different district court judge for further proceedings consistent with this disposition.

AFFIRMED in part, REVERSED in part, and REMANDED to the district court. Cincom shall recover its costs on appeal.

FILED
JULY 25, 2000
Cathy A. Catterson, Clerk
U.S. Court of Appeals

Hug, Circuit Judge, concurring and dissenting:

I respectfully dissent from Section II A and B and Section III and concur in the remainder of the majority opinion.

Section II A in effect grants a summary judgment to Cincom on its copyright infringement claim. I conclude that there is a genuine issue of material fact as to whether Beckman and SMS made fair use of Cincom's software. Under the licensing agreement, Beckman was clearly entitled to use the software while servicing its computers. Beckman engaged SMS to service its computers. There is no indication that SMS's copying or utilizing Cincom's software was other than to accomplish Beckman's use of the software to service its computers. There is no indication that SMS was in any way in competition with Cincom when it serviced Beckman's computers, nor is there any evidence that SMS had or was intending to use Cincom's software in connection with servicing any other organization's computers. The evidence produced at this stage is that SMS's copying was done solely in furtherance of servicing Beckman's computers, a use which Beckman was entitled to make of the software.

This is in significant contrast to *Mai Systems Corp. v. Peak Computer Inc.*, 991 F.2d 511 (9th Cir. 1993), the case relied on by the majority. There, Peak Computer was using Mai's software to service computers of customers in competition with Mai, who itself was seeking to service various customer's computers. Furthermore, unlike the software in this case which is used primarily to enter and track the sale of Beckman's products, the software in Mai was designed to

run operating systems and was integral to the technical servicing of the computers.

The majority also relies in both Sections A and B upon the restriction in the licensing agreement that Beckman "will not sell, give, or lease" the software. If in any of these ways Beckman transferred the software to SMS so that it was free to use it for other than servicing Beckman's computers this would be both a copyright violation and a breach of contract. However, on the transfer for use solely to service Beckman's own computers, there is at least a genuine issue of material fact as to the intent of the parties and the use that was actually made of the software.

With respect to Section III, I conclude a reassignment of the case is not justified. As the majority notes in Section I, our decision on the preliminary injunction did not constitute law of the case and the parties were free to litigate the merits. As the majority noted, the appellees offered new evidence in the district court. Thus it is not unusual that the district court proceeded with the merits of the case independently from our decision on the preliminary injunction. I also do not find the actions of the court in relation to the parties sufficient to justify reassignment.

NOT FOR PUBLICATION

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

FILED
December 4, 1998
Cathy A. Catterson, Clerk
U.S. Court of Appeals

BECKMAN INSTRUMENTS, INC., a Delaware corporation;
SYSTEMS MANAGEMENT SPECIALISTS, INC.,
a Delaware corporation,

Plaintiffs-counter-defendants — Appellees,

v.

CINCOM SYSTEMS, INC., an Ohio corporation,
Defendant-counter-plaintiff — Appellant,
and
DOES 1 THROUGH 25, INCLUSIVE,

Defendant-counter-plaintiff.

No. 98-55252

CV-97-08143-JLR

ORDER AMENDING DISPOSITION,
DENYING PETITION FOR REHEARING AND
DIRECTING ISSUANCE OF MANDATE

Before: BRUNETTI, FERNANDEZ and McKEOWN,
Circuit Judges.

The memorandum disposition filed November 10, 1998 is hereby amended as follows:

(1) At page two, second full paragraph, eleventh line, the following sentence is added after the sentence which now ends on that line: "SMS and Beckman apparently also loaded Cincom's software from one computer (authorized to have the software) onto SMS's own disks and onto another, unauthorized central processing unit."

(2) At page three, first line, the sentence now commencing on that line is stricken and the following is substituted in its place: "Notwithstanding the general principles articulated in these cases, under recent amendments to the Copyright Act, Pub. L. No. 105-304, 112 Stat. 2860, known as the Digital Millennium Copyright Act of 1998, Congress specifically permitted certain third-party copying of computer programs for the limited purpose of maintenance and repair. *See* 17 U.S.C. § 117(c)(1998). Cincom's claims for copying, however, extend beyond the limited copying permitted under the Act. And, we reject Beckman's and SMS's argument that these acts of copying were authorized by the licensing agreement between Beckman and Cincom."

(3) On page four, second full paragraph, third line, the sentence which now commences on that line is stricken and the following is added in its place: "The district court is to preliminarily enjoin SMS from using Cincom's software and Beckman from allowing SMS to use Cincom's software without Cincom's expressed written consent, except to the extent permitted under the Digital Millennium Copyright Act; however, we leave the exact terms and form of the injunction for the district court's determination.[3]

With the above amendments to the disposition, Appellees' Petition for Rehearing and Stay of Mandate is DENIED.

The mandate shall issue forthwith.

INTERNAL USE ONLY: Proceedings include all events.
98-55252 *Beckman Instruments, et al v. Cincom Systems, Inc., et al.*

BECKMAN INSTRUMENTS, a Delaware corporation Plaintiff-counter-defendant — Appellee	Bart L. Kessel, Esq. 714-252-7500 Suite 3000 [COR LD NTC ret] ARTER AND HADDEN 700 South Flower Street Los Angeles, CA 90017-4101
SYSTEMS MANAGEMENT SPECIALISTS, INC., a Delaware corporation Plaintiff-counter-defendant — Appellee	Aaron M. Peck, Esq. FTS 617-9255 213/629-9300 Suite 3000 [COR LD NTC ret] ARTER AND HADDEN 700 South Flower Street Los Angeles, CA 90017-4101
v.	
CINCOM SYSTEMS, INC., an Ohio corporation Defendant-counter-plaintiff — Appellant	William J. Robinson, Esq. 213-624-2500 [COR LD NTC ret] GRAHAM & JAMES LLP 801 Figueroa Street Los Angeles, CA 90017 Kimberly G. Winer, Esq. 213-624-2500 14th Floor [COR LD NTC ret] GRAHAM AND JAMES LLP 801 South Figueroa Street Los Angeles, CA 90017-5554
DOES 1 THROUGH 25, INCLUSIVE Defendant-counter-plaintiff	No Appearance

NOT FOR PUBLICATION

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

FILED
November 10, 1998
Cathy A. Catterson, Clerk
U.S. Court of Appeals

BECKMAN INSTRUMENTS, INC.,
a Delaware corporation;
Systems Management Specialists, Inc.,
a Delaware corporation,
Plaintiffs-counter-defendants — Appellees,

v.

CINCOM SYSTEMS, INC., an Ohio corporation,
Defendant-counter-plaintiff — Appellant,
DOES 1 THROUGH 25, INCLUSIVE,
Defendant-counter-plaintiff.

No. 98-55252
D.C. No. CF-97-08143-JLR
MEMORANDUM*

Appeal from the United States District Court
for the Central District of California
Manuel L. Real, District Judge, Presiding

Submitted October 9, 1998**
Pasadena, California

*This disposition is not appropriate for publication and may not be cited to or by the courts of this circuit except as provided by 9th Cir. R. 36-3.

**The panel finds this case appropriate for submission without oral argument pursuant to 9th Cir. R. 34-4 and Fed. R. App. P. 34(a).

Before: BRUNETTI, FERNANDEZ, and McKEOWN, Circuit Judges

Cincom Systems, Inc. appeals the district court's denial of its motion for a preliminary injunction seeking to enjoin Beckman Instruments, Inc. and Systems Management Specialists, Inc. from infringing Cincom's copyrights in the software programs and misappropriating Cincom's trade secrets. We reverse and remand.

To obtain a preliminary injunction, Cincom must demonstrate either (1) a likelihood of success on the merits and the possibility of irreparable injury, or (2) the existence of serious questions going to the merits and the balance of hardships tipping sharply in its favor. *See Cadence Design Sys., Inc. v. Avant! Corp.*, 125 F.3d 824, 826 (9th Cir. 1997), *cert. denied*, U.S. , 118 S. Ct. 1795, 140 L. Ed. 2d 936 (1998); *Triad Sys. Corp. v. Southeastern Express Co.*, 64 F.3d 1330, 1334 (9th Cir. 1995), *cert. denied*, 516 U.S. 1145, 116 S. Ct. 1015, 134 L. Ed. 2d 96 (1996); *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 516 (9th Cir. 1993).

To make the required showing of a likelihood of success on the merits of its copyright infringement claim, Cincom has to prove (1) ownership of the copyrights, and (2) copying of an expression protected by those copyrights beyond the scope of the license. *See MAI*, 991 F.2d at 517; *see also Triad*, 64 F.3d at 1335; *Johnson Controls, Inc. v. Phoenix Control Sys., Inc.*, 886 F.2d 1173, 1175 (9th Cir. 1989). Beckman and SMS do not dispute the validity of Cincom's copyrights in the computer software. They also do not dispute that SMS, with Beckman's permission, copied Cincom's software into the computer's random access memory and onto the backup tapes. We have previously held that these acts of copying, if unauthorized, constitute copyright infringement. *See Triad*, 64 F.3d at 1333 n.4 & 1335; *MAI*,

991 F.2d at 519. We reject Beckman's and SMS's argument that these acts of copying were authorized by the licensing agreement between Beckman and Cincom. The licensing agreement granted Beckman a "non-transferable license" to use Cincom's software, and specifically prohibited Beckman from selling, giving or leasing Cincom's software to another firm.

Because Cincom has demonstrated a likelihood of success on the merits of its copyright claim, it is entitled to a presumption of irreparable harm. *See Triad,* 64 F.3d at 1335; *See also Johnson Controls,* 886 F.2d at 1174; *Apple Computer, Inc. v. Formula Int'l. Inc.,* 725 F.2d 521, 525 (9th Cir. 1984). Beckman and SMS cannot rebut that presumption by showing that Cincom's injury is compensable in money damages. *See Cadence,* 125, F.3d at 827. Nor have they shown that Cincom unreasonably delayed bringing its motion for injunctive relief. *See id.* at 829; *see also Richard Feiner & Co., Inc. v. Turner Entertainment Co.,* 98 F.3d 33, 35 (2d Cir. 1996). We also reject their argument that the presumption of irreparable harm is rebutted in this case because SMS and Cincom are not in competition with each other. Assuming arguendo that this is a factor to consider, *see Cadence,* 125 F.3d at 828, given the strength of Cincom's case on the merits, it would take a substantial amount of evidence to rebut the presumption of irreparable harm. The lack of competition, standing alone, is not enough.[1]

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[1] We also find no merit in Beckman's and SMS's argument that injunctive relief is barred by laches. They have failed to show that Cincom's delay in bringing the motion for a preliminary injunction was unreasonable, or that they were prejudiced by the delay. *See Neighbors of Cuddy Mountain v. United States Forest Serv.,* 137 F.3d 1372, 1381 (9th Cir. 1998); *Apache Survival Coalition v. United States,* 118 F.3d 663, 665 (9th Cir. 1997).

For similar reasons, the district court should also preliminary enjoin the concomitant misuse of Cincom's trade secrets, which are intertwined and used with the copyrights in question.[2] Once a trade secret is enabled to fly from its oubliette, it cannot be recaptured. Once lost, it is lost forever. The harm is irreparable. *See Cal. Civ. Code* § 3426.2; *FMC Corp. v. Taiwan Tainan Giant Indus. Co., Ltd.*, 730 F.2d 61, 63 (2d. Cir. 1984); *Monovis, Inc. v Aguino*, 905 F. Supp. 1205, 1234 (W.D.N.Y. 1994); *Boeing Co. v. Sierracin Corp.*, 108 Wash. 2d 38, 62–63, 738 P.2d 665, 681 (1987).

Accordingly, we reverse and remand the case to the district court for the entry of a preliminary injunction on Cincom's copyright and trade secret infringement claims. The district court is to enjoin SMS from using Cincom's software and Beckman from allowing SMS to use Cincom's software without Cincom's express written consent; however, we leave the exact terms and form of the injunction for the district court's determination.[3]

REVERSED and REMANDED

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[2]We note that at this point, at least, Beckman and SMS do not assert that the trade secret material is distinguishable from the copyrighted material and that it is not properly identified. *Cf. MAI*, 991 F.2d at 522–23.

[3]We hasten to add that statements about the facts in this disposition are simply based on the record at the preliminary injunction hearing and are not meant to establish those facts as the law of the case.

INTERNAL USE ONLY: Proceedings include all events.
98-55252 *Beckman Instruments, et al v. Cincom Systems, Inc., et al.*

BECKMAN INSTRUMENTS, a Delaware corporation Plaintiff-counter-defendant — Appellee	Bart L. Kessel, Esq. 714-252-7500 Suite 3000 [COR LD NTC ret] ARTER AND HADDEN 700 South Flower Street Los Angeles, CA 90017-4101
SYSTEMS MANAGEMENT SPECIALISTS, INC., a Delaware corporation Plaintiff-counter-defendant — Appellee	Aaron M. Peck, Esq. FTS 617-9255 213/629-9300 Suite 3000 [COR LD NTC ret] ARTER AND HADDEN 700 South Flower Street Los Angeles, CA 90017-4101
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CINCOM SYSTEMS, INC., an Ohio corporation Defendant-counter-plaintiff — Appellant	William J. Robinson, Esq. 213-624-2500 [COR LD NTC ret] GRAHAM & JAMES LLP 801 Figueroa Street Los Angeles, CA 90017 Kimberly G. Winer, Esq. 213-624-2500 14th Floor [COR LD NTC ret] GRAHAM AND JAMES LLP 801 South Figueroa Street Los Angeles, CA 90017-5554
DOES 1 THROUGH 25, INCLUSIVE Defendant-counter-plaintiff	No Appearance

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SYSTEMS MANAGEMENT SPECIALISTS, INC.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

LOGGED
Clerk, U.S. District Court
February 2, 1998
Central District of California
By Deputy

FILED
February 4, 1998
United States District Court
Central District of California
By Deputy

RECEIVED
February 12, 1993
G&J Intellectual Property Dept.

BECKMAN INSTRUMENTS, INC., a Delaware Corporation; SYSTEMS MANAGEMENT SPECIALISTS, INC., a Delaware Corporation

Plaintiffs,

v.

CINCOM SYSTEMS, INC., an Ohio Corporation, and DOES 1 THROUGH 25, inclusive

Defendants.

and RELATED COUNTERCLAIM

Case No. 97-8143 (RNBx)

ORDER DENYING MOTION FOR ENTRY OF A PRELIMINARY INJUNCTION

Date: February 2, 1998
Time: 10:00 a.m.
Crtm.: 8

Defendant Cincom System, Inc.'s ("Cincom") motion for an order enjoining plaintiffs Beckman Instruments, Inc. ("Beckman Instruments") and System Management Specialists, Inc. ("SMS") from using Cincom's software and proprietary information came on regularly for hearing before this Court on February 2, 1998. William J. Robinson and Graham & James appeared as attorneys for Cincom and Bart L. Kessel and Arter & Hadden appeared as attorneys for SMS and Beckman Instruments.

After considering the papers, arguments of counsel and all other matters presented to the Court,

IT IS HEREBY ORDERED that Cincom's motion is denied in all respects.

MANUEL L. REAL
UNITED STATES DISTRICT JUDGE

DATED: February 4, 1998

Presented by:

Arter & Hadden
Bart L. Kessel
Kathryn L. Kempton

By: BART L. KESSEL

BART L. KESSEL
Attorneys For Plaintiffs
BECKMAN INSTRUMENTS, INC.
and SYSTEMS MANAGEMENT
SPECIALISTS, INC.

PROOF OF SERVICE BY MAIL

I, Karen M. Magtaas, declare as follows:

I am employed in the County of Los Angeles, State of California; I am over the age of 18 years and am not a party to the within action or proceeding. I am employed by the law firm of Arter & Hadden, located at 700 South Flower Street, Suite 3000, Los Angeles, California 90017-4101, Telephone: (213) 629-9300, Facsimile: (213) 617-9255.

On February 11, 1998, I served the within Order Denying Motion for Entry of a Preliminary Injunction on the interested parties in said action, by placing a true copy thereof in a sealed envelope with postage thereon fully prepaid, in the United States mail at Los Angeles, California addressed as follows:

GRAHAM & JAMES
William J. Robsinson
Victor de Gyarfas
801 South Figueroa Street, 14th Floor
Los Angeles, CA 90017

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on February 11, 1998, at Los Angeles, California.

/s/ KAREN M. MAGTAAS
Karen M. Magtaas